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This report responds to reftel request for the INCSR I  
Drugs and Chemical Control Report update.

#### I. Summary

Burma took many wrong turns in 2007, including in the war on drugs. Both UNODC and U.S. surveys of opium poppy cultivation indicated a significant increase in cultivation and potential production in 2007, while production and export of synthetic drugs (amphetamine-type stimulants, crystal methamphetamine and ketamine) from Burma continued unabated. The significant downward trend in poppy cultivation observed in Burma since 1998 halted in 2007, with increased cultivation reported in Eastern, Northern and Southern Shan State and Kachin State. Whether this represents a sustained reversal in poppy cultivation in Burma, which remains far below levels of 10 years earlier, remains to be seen. It does indicate, however, that increases in the value of opium are driving poppy cultivation into new regions. An increased number of households in Burma were involved in opium cultivation in 2007. While Burma remains the second largest opium poppy grower in the world after Afghanistan, its share of world opium poppy cultivation fell from 55 percent in 1998 to 11 percent in 2006, and rose slightly to 12 percent in 2007. This large proportional decrease is due to both decreased opium poppy cultivation in Burma and increased cultivation in Afghanistan. The Golden Triangle region in Southeast Asia no longer reigns as the world's largest opium poppy cultivating region, now producing 5 percent of the world's opium.

Despite increased cultivation in 2007, Burma's opium cultivation declined dramatically between 1998 and 2006. The UN Office on Drugs and Crime (UNODC) estimates a decrease from 130,300 hectares in 1998 to 21,500 hectares in 2006, an 83 percent decrease. Cultivation in 2007 increased 29 percent, from 21,500 hectares in 2006 to 27,700 hectares. The most significant decline over the

past decade was observed in the Wa region, following the United Wa State Army's (UWSA) pledge to end opium poppy cultivation in its primary territory, UWSA Region 2. UWSA controlled territory accounted for over 30 percent of the acreage of national opium poppy cultivation in 2005, but almost no poppy cultivation was reported in the Wa region in 2006 and 2007. However, there are indications that cultivation has increased in regions closely bordering UWSA Region 2.

Burma has not provided most opium farmers with access to alternative development opportunities. Recent trends indicate that some opium farmers were tempted to increase production to take advantage of higher prices generated by opium's relative scarcity and continuing strong demand. Increased yields in new and remaining poppy fields (particularly in Southern Shan State), spurred by favorable weather conditions in 2007 and improved cultivation practices, have partially offset the affects of decreased cultivation. Higher yields in some areas may also signal more sophisticated criminal activity, greater cross border networking, and the transfer of new and improved cultivation technologies.

Burma's overall decline in poppy cultivation since 1998 has been accompanied by a sharp increase in the production and export of synthetic drugs, turning the Golden Triangle into a new "Ice Triangle." Burma is a significant player in the manufacture and regional trafficking of amphetamine-type stimulants (ATS). Drug gangs based in the Burma-China and Burma-Thailand border areas, many of whose members are ethnic Chinese, produce several hundred million methamphetamine tablets annually for markets in Thailand, China, and India, as well as for onward distribution beyond the region. There are also indications that groups in Burma have increased the production and trafficking of

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crystal methamphetamine or "Ice" - a much higher purity and more potent form of methamphetamine than the tablets.

Through its Central Committee for Drug Abuse Control (CCDAC), the Government of Burma (GOB) cooperates regularly and shares information with the U.S. Drug Enforcement Administration (DEA) and Australian Federal Police (AFP) on narcotics investigations. In recent years, the GOB has also increased its law enforcement cooperation with Thai, Chinese and Indian counter-narcotics authorities, especially through renditions, deportations, and extraditions of suspected drug traffickers.

During the 2007 drug certification process, the U.S. determined that Burma was one of only two countries in the world that had "failed demonstrably" to meet its international counter-narcotics obligations. Major concerns remain: unsatisfactory efforts by Burma to deal with the burgeoning ATS production and trafficking problem; failure to take concerted action to bring members of the United Wa State Army (UWSA) to justice following the unsealing of a U.S. indictment against them in January 2005; failure to investigate and prosecute military officials for drug-related corruption; and failure to expand demand-reduction, prevention and drug-treatment programs to reduce drug-use and control the spread of HIV/AIDS. Burma is a party to 1988 UN Drug Convention.

## II. Status of Country

Burma is the world's second largest producer of illicit opium. Eradication efforts and enforcement of poppy-free zones combined to reduce cultivation levels between 1998 and 2006, especially in Wa territory. However, in 2007, a significant resurgence of cultivation occurred, particularly in eastern and southern Shan State and Kachin State, where increased cultivation, favorable weather conditions, and new cultivation practices increased opium

production levels, led to an estimated 29 percent increase in overall opium poppy cultivation and a 46 percent increase in potential production of dry opium.

According to the UNODC, opium prices in the Golden Triangle have increased in recent years, although prices in Burma remain much lower than the rest of the region due to easier supply. Burmese village-level opium prices or farm-gate prices increased from \$153 per kg in 2004 to \$187 in 2005, to \$230 in 2006 and to \$265/kg in 2007. Burmese opium sales contribute about half of the annual household cash income of farmers who cultivate opium, which they use to pay for food between harvests. Forty-five percent of the average yearly income (\$501) of opium cultivating households in Shan State was derived from opium sales in 2007.

In 2007, the UNODC opium yield survey estimated there were approximately 27,700 hectares planted with opium poppies, with an average yield of 16.6 kg per hectare (significantly higher than the 2006 average yield of 14.6 kg per hectare). [Independent U.S. opium poppy cultivation surveys also indicated increased poppy cultivation and estimated opium production to approximately 27,700 hectares cultivated and 270 metric tons produced]. The UNODC's opium yield survey concluded that cultivation had increased 29 percent in Burma from 2006 levels, with a 46 percent increase in potential production to 460 metric tons. This represented a 67 percent increase in the total potential value of opium production in Burma, from \$72 million in 2006 to \$120 million in 2007. Nonetheless, both surveys indicated that opium production is still down 90 percent from its peak production in 1996.

The general decline in poppy cultivation in Burma since 1996 has been accompanied by a sharp increase in the local production and export of synthetic drugs. According to GOB figures for 2007, the GOB seized approximately 1.5 million methamphetamine tablets, compared to 19.5 million seized in 2006. Opium, heroin, and ATS are produced predominantly in

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the border regions of Shan State and in areas controlled by ethnic minority groups. Between 1989 and 1997, the Burmese government negotiated a series of cease-fire agreements with several armed ethnic minorities, offering them limited autonomy and continued tolerance of their narcotics production and trafficking activities in return for peace. In June 2005, the United Wa State Army (UWSA) announced implementation in Wa territory of a long-delayed ban on opium production and trafficking. While the cultivation of opium poppies decreased in the Wa territory during 2006 and 2007, according to UNODC and U.S. surveys, there are indications from many sources that Wa leaders replaced opium cultivation with the manufacture and trafficking of ATS pills and "Ice" in their territory, working in close collaboration with ethnic Chinese drug gangs.

Although the government has not succeeded in persuading the UWSA to stop its illicit drug production and trafficking, the GOB's Anti-Narcotic Task Forces continued to pressure Wa traffickers in 2007. UWSA also undertook limited enforcement actions against rivals in Shan State in 2006 and 2007. In May 2006, UWSA units found and dismantled two clandestine laboratories operating in territory occupied and controlled by the UWSA-South in Eastern Shan State. When the UWSA units entered the lab sites, a firefight ensued, with eight people fatally wounded, four arrested, and 25 kg of heroin and 500,000 methamphetamine tablets seized by the raiding UWSA units. In June 2006, the UWSA passed custody of the contraband substances to Government of Burma (GOB) officials. The prisoners remained in the custody of the UWSA. These UWSA actions likely were motivated more towards eliminating the competition in their area than by a desire to stop drug trafficking. In Burma, opium addiction remains high in places of historic or current opium production, ranging from 1.27 percent of the

total adult population in Eastern Shan State to 0.97 percent in Kachin State and an estimated 0.83 percent in the Wa region, the main area of opium production until 2006.

### III. Country Actions Against Drugs in 2007

--Policy Initiatives. Burma's official 15-year counter-narcotics plan, launched in 1999, calls for the eradication of all narcotics production and trafficking by the year 2014, one year ahead of an ASEAN-wide plan of action that calls for the entire region to be drug-free by 2015. To meet this goal, the GOB initiated its plan in stages, using eradication efforts combined with planned alternative development programs in individual townships, predominantly in Shan State. The government initiated its second five-year phase in 2004. Ground surveys by the Joint GOB-UNODC Illicit Crop Monitoring Program indicate a steady decline in poppy cultivation and opium production in areas receiving focused attention, due to the availability of some alternative livelihood measures (including crop substitution), the discovery and closure of clandestine refineries, stronger interdiction of illicit traffic, and annual poppy eradication programs. The UNODC estimates that the GOB eradicated 3,598 hectares of opium poppy during the 2007 opium poppy cropping season (ranging between July-March in most regions), compared to 3,970 hectares in 2006.

The most significant multilateral effort in support of Burma's counter-narcotics efforts is the UNODC presence in Shan State. The UNODC's "Wa Project" was initially a five-year, \$12.1 million supply-reduction program designed to encourage alternative development in territory controlled by the UWSA. In order to meet basic human needs and ensure the sustainability of the UWSA opium ban announced in 2005, the UNODC extended the project through 2007, increased the total budget to \$16.8 million, and broadened the scope from 16 villages to the entire Wa Special Region No. 2. Major donors that have supported the Wa Project include Japan and Germany, with additional contributions from the UK and Australia. The United States previously funded the UNODC

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Wa project, but halted funding over issued by UWSA leadership against U.S. DEA agents following the January 2005 indictment of seven UWSA leaders in a U.S. district court for their role in producing and smuggling heroin to the United States.

As part of its 15-year counter-narcotics plan, in 2002 the Burmese Central Committee for Drug Abuse Control (CCDAC) initiated the "New Destiny" project, which calls for the complete eradication of poppy cultivation nationwide and its replacement with substitute crops. The GOB, under its 1993 Narcotics Drugs and Psychotropic Substances Law, issued notifications controlling 124 narcotic drugs, 113 psychotropic substances, and 25 precursor chemicals. Burma enacted a "Mutual Assistance in Criminal Matters Law" in 2004.

--Law Enforcement Measures. The CCDAC, which leads all drug-enforcement efforts in Burma, is comprised of personnel from the national police, customs, military intelligence, and army. The CCDAC, under the control of the Ministry of Home Affairs, coordinates 27 anti-narcotics task forces throughout Burma. Most are located in major cities and along key transit routes near Burma's borders with China, India, and Thailand. As is the case with most Burmese government entities, the CCDAC suffers from a severe lack of adequate funding, equipment, and training to support its law-enforcement mission. The Burmese Army and Customs Department support the Police in this role. In 2005, CCDAC established two new anti-narcotic task forces in Rangoon and Mandalay, supplementing existing task forces in both cities.

Burma is actively engaged in drug-abuse control with its neighbors China, India, and Thailand. Since 1997, Burma and Thailand have had 11 cross-border law enforcement cooperation meetings. The most significant result of this cooperation has been the repatriation by Burmese police of drug suspects wanted by Thai authorities: two in 2004, one in 2005 and one in 2006. According to the GOB, Thailand has contributed over \$1.6 million to support an opium crop substitution and infrastructure project in southeastern Shan State. In 2007, Thailand assigned an officer from the Office of Narcotics Control Board (ONCB) to its mission in Rangoon. Burma-China cross border law enforcement cooperation has increased significantly, resulting in several successful operations and the handover of several Chinese fugitives who had fled to Burma. While not formally funding alternative development programs, the Chinese government has actively encouraged investment in many projects in the Wa area and other border regions, particularly in commercial enterprises such as tea plantations, rubber plantations, and pig farms. China has assisted in marketing those products in China through lower duties and taxes. There are also indications that China conducted its own opium cultivation and production surveys in 2007 in regions of Burma bordering the PRC, although they have not shared data resulting from those surveys with other parties.

After Burma and India signed an agreement on drug control cooperation in 1993, the two countries have held cross border Law Enforcement meetings on a biannual basis, the last being held September 11, 2004, in Calcutta. The GOB has to date taken no direct action against any of the seven UWSA leaders indicted by U.S. federal court in January 2005, although authorities have taken action against other, lower ranking members of the UWSA syndicate. In 2007, one of the indicted leaders, Pao Yu-hua, died of natural causes and another indicted leader, Ho Chun-t'ing, was captured by Hong Kong Police. He is currently imprisoned in Hong Kong while U.S. and Hong Kong officials discuss his extradition to stand trial in the U.S. Another notorious Burmese drug lord, Khun Sa, who was held under house arrest in Rangoon following his surrender to the GOB in December 1996, died from natural causes in October 2007.

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--Narcotics Seizures. Summary statistics provided by Burmese drug officials indicate that through September 2007, Burmese police, army, and the Customs Service together seized 1154 kgs of raw opium, 354 kgs of low quality opium, 73 kgs of heroin, 91 kgs of marijuana, approximately 1.5 million methamphetamine tablets, 455 kgs of methamphetamine powder, 395 kgs of methamphetamine ICE, 238 kgs of ephedrine, 3,116 kgs of powdered precursor chemicals, and 8,723 liters of precursor chemicals.

On January 19, 2007, based on DEA and AFP information, the Lashio CCDAC ANTF dismantled a heroin refinery in the Man Lin Hills near Lashio, Shan State. This operation resulted in the arrest of two defendants and the seizure of approximately 20.3 kgs of heroin, 20.3 kgs of brown opium, 1.02 kgs of opium residue, 1,100 kgs of ammonium chloride, 770 kgs of sodium chloride, 1,470 liters of ether, 438 liters of hydrochloric acid, 183 liters of chloroform, and various equipment used in the refining of heroin.

On February 14, 2007, based on DEA and AFP information, the Muse CCDAC ANTF dismantled a heroin refinery near Khar Li Khu Village, Mong Ko Township, Burma. This operation resulted in the arrest of 7 individuals, and the seizure of 7 kgs of brown opium, 89 kgs of ephedrine, 22.75 liters of mineral spirit, 3 kgs of sodium hydroxide, 2 liters of hydrochloric acid, 183 liters of chloroform, and various equipment used in the refining of heroin.

On April 21, 2007, the Tachilek ANTF seized a total of approximately 264,000 methamphetamine tablets.

On April 23, 2007, based on DEA and AFP information, CCDAC ANTF seized 224.3 kgs of opium, 300 grams of heroin, opium seeds, 7.1 million kyat (approximately \$6,000), and 50,000 Chinese Yuan (approximately \$6,250) in Pan Se, Nam Kham Township, Burma.

During a May 26, 2007 raid on a heroin refinery in Kokang region, the Muse ANTF captured a Kachin Defense Army (KDA) major. Returning from the refinery, ANTF was ambushed by approximately 60 armed individuals. In the ensuing firefight, the KDA major was rescued and the opposing force escaped with the drugs and money seized at the refinery. Four ANTF officers were killed and two were wounded. The attackers were identified as KDA and were believed to be primarily interested in recovering the KDA major.

On June 7, 2007, based on DEA information, the Taunggyi ANTF seized 195.2 kgs of opium from three locations and dismantled a heroin refinery.

--Corruption. Burma signed but has not ratified the UN Corruption Convention. Burma does not have a legislature or effective constitution; and has no laws on record specifically related to corruption. While there is little evidence that senior officials in the Burmese Government are directly involved in the drug trade, there are credible indications that mid-and-lower level military leaders and government officials, particularly those posted in border and drug producing areas, are closely involved in facilitating the drug trade. The Burmese regime closely monitors travel, communications and activities of its citizens to maintain its pervasive control of the population, so it strains credibility to believe that government officials are not aware of the cultivation, production and trafficking of illegal narcotics in areas it tightly controls. A few officials have been prosecuted for drug abuse and/or narcotics-related corruption. However, Burma has failed to indict any military official above the rank of colonel for drug-related corruption.

--Agreements and Treaties. Burma is a party to the 1961 UN Single Convention on Narcotic Drugs (and became a member of the 1972 Protocol to the Single Convention in 2003), the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention.

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--Cultivation and Production. According to the UNODC opium yield estimate, in 2007 the total land area under poppy cultivation was 27,700 hectares, a 29 percent increase from the previous year. The UNODC also estimated that the potential production of opium increased by 46 percent, from 315 metric tons in 2006 to 460 metric tons in 2007. The significant increase in potential opium production in 2007 indicated in the UNODC estimates reflect improved agricultural methods and an end to several years of drought, resulting in more favorable growing weather in major opium poppy growing areas, such as Shan State and Kachin State.

Burma as yet has failed to establish any reliable mechanism for the measurement of ATS production. Moreover, while the UNODC undertakes annual estimates of poppy cultivation and production, the U.S. has been unable to conduct its annual joint crop survey with Burma since 2004 due to the GOB's refusal to cooperate in this important area.

--Drug Flow/Transit. Most ATS and heroin in Burma is produced in small, mobile labs located near Burma's borders with China and Thailand, primarily in territories controlled by active or former insurgent groups. A growing amount of methamphetamine is reportedly produced in labs

co-located with heroin refineries in areas controlled by the United Wa State Army (UWSA), the Shan State Army-South (SSA-S), and groups inside the ethnic Chinese Kokang autonomous region. Ethnic Chinese criminal gangs dominate the drug syndicates operating in all three of these areas. Heroin and methamphetamine produced by these groups is trafficked overland and via the Mekong River, primarily through China, Thailand, India and Laos and, to a lesser extent, via Bangladesh, and within Burma. There are credible indications that drug traffickers are increasingly using maritime routes from ports in southern Burma to reach trans-shipment points and markets in southern Thailand, Malaysia, Indonesia, and beyond. Heroin seizures in 2005, 2006 and 2007 and subsequent investigations also revealed the increased use by international syndicates of the Rangoon International Airport and Rangoon port for trafficking of drugs to the global narcotics market.

--Domestic Programs/Demand Reduction. The overall level of drug abuse is low in Burma compared with neighboring countries, in part because most Burmese are too poor to be able to support a drug habit. Traditionally, some farmers used opium as a painkiller and an anti-depressant, in part because they lack access to other medicine or adequate healthcare. There has been a growing shift in Burma away from opium smoking toward injecting heroin, a habit that creates more addicts and poses greater public health risks. Deteriorating economic conditions will likely stifle substantial growth in overall drug consumption, but the trend toward injecting narcotics is of significant concern. The GOB maintains that there are only about 65,000 registered addicts in Burma. According to several HIV Estimation Workshops conducted in 2007 by the National AIDS Program and the World Health Organization, there are an estimated 60,000 to 90,000 injecting drug users in Burma. Surveys conducted by UNODC and other organizations suggest that the addict population could be as high as 300,000. According to the UNODC, Burma's opium addiction rate is high, at 0.75 percent. NGOs and community leaders report increasing use of heroin and synthetic drugs, particularly among disaffected youth in urban areas and by workers in mining communities in ethnic minority regions. The UNODC estimated that in 2004 there were at least 15,000 regular ATS users in Burma.

The growing HIV/AIDS epidemic has been tied to intravenous drug use. According to the National AIDS Program, one third of officially reported HIV/AIDS cases are attributable to intravenous drug use, one of the highest rates in the world. Information gathered by the National AIDS Program showed that HIV prevalence among injecting

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drug users was 46.2 percent in 2006 ? a figure that remained stable in 2007. Infection rates are highest in Burma's ethnic regions, and specifically among mining communities in those areas where opium, heroin, and ATS are more readily available.

Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register with the GOB and can be prosecuted if they fail to register and accept treatment. Altogether, more than 21,000 addicts were prosecuted between 1994 and 2002 for failing to register. (The GOB has not provided any data since 2002.) Demand reduction programs and facilities are limited, however. There are six major drug treatment centers under the Ministry of Health, 49 other smaller detoxification centers, and eight rehabilitation centers, which, together, have provided treatment to about 70,000 addicts over the past decade. Prior to 2006, the Ministry of Health treated heroin addicts with tincture of opium. However, based on high levels of relapse, the Ministry of Health in 2006 began to treat heroin addicts with Methadone Maintenance Therapy (MMT) in four drug treatment centers, found in Rangoon, Mandalay, Lashio, and Myitkyina. The Ministry of

Health also began dispensing methadone treatment in three additional sites, two in Kachin State and one in Rangoon. By August 2007, the Ministry of Health had treated more than 370 patients using MMT.

As a pilot model, in 2003 UNODC established community-based treatment programs in Northern Shan State as an alternative to official GOB treatment centers. UNODC expanded this program, opening centers in Kachin State. In 2007, UNODC operated 16 drop-in centers. Since 2004, more 2,000 addicts received treatment at UNODC centers. In 2006 and 2007, an additional 8,028 addicts have sought medical treatment and support from UNODC-sponsored drop-in centers and outreach workers who are active throughout northeastern Shan State. The GOB also conducts a variety of narcotics awareness programs through the public school system. In addition, the government has established several demand reduction programs in cooperation with NGOs. These include programs coordinated with CARE Myanmar, World Concern, and Population Services International (PSI), focus on addressing injected drug use as a key factor in halting the spread of HIV/AIDS.

However, while maintaining these programs at pre-existing levels, Burma has failed to expand demand-reduction, prevention, and drug-treatment programs to reduce drug use and control the spread of HIV/AIDS. The Global Fund, which had a budget of \$98.5 million to fight AIDS, TB, and Malaria in Burma, withdrew in 2005. In 2006, foreign donors established the 3 Diseases Fund (3DF) to provide humanitarian assistance for AIDS, TB, and malaria. The 3DF, with its budget of \$100 million over five years, supports the work of local and international NGOs, the United Nations, and the Ministry of Health. In 2007, the 3DF supported HIV/AIDS programs such as HIV surveillance and training on blood safety. The 3DF also provided funds for antiretroviral therapy and the MMT program.

#### IV. U.S. Policy Initiatives and Programs

--Policy and Programs. As a result of the 1988 suspension of direct USG counter-narcotics assistance to Burma, the USG has limited engagement with the Burmese government in regard to narcotics control. US DEA, through the U.S. Embassy in Rangoon, shares drug-related intelligence with the GOB and conducts joint drug-enforcement investigations with Burmese counter-narcotics authorities. In 2006 and 2007, these joint investigations led to several seizures, arrests, and convictions of drug traffickers and producers. The U.S. conducted opium yield surveys in the mountainous regions of Shan State from 1993 until 2004, with assistance provided by Burmese counterparts. These surveys gave both governments a more accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's

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opium crop. In 2005, 2006 and again in 2007, the GOB refused to allow another joint opium yield survey. A USG remote sensing estimate conducted indicated a slight increase in opium cultivation in 2007 and a significant increase in potential opium production, mirroring UNODC survey results. Bilateral counter-narcotics projects are limited to one small U.S.-supported crop substitution project in Shan State. No U.S. counter-narcotics funding directly benefits or passes through the GOB.

--The Road Ahead. The Burmese government must reverse the negative direction of narcotics production in 2007 to restore the significant gains it made over the past decade in reducing opium poppy cultivation and opium production. This will require greater cooperation with UNODC and major regional partners, particularly China and Thailand. Large-scale and long-term international aid - including increased development assistance and law-enforcement aid - could play a major role in reducing drug production and trafficking in Burma. However, the ruling military regime



remains reluctant to engage in political dialogue within Burma and with the international community. Its barriers to those offering outside assistance have limited the potential for international support of all kinds, including support for Burma's counter-narcotics law enforcement efforts. Furthermore, in order to be sustainable, a true opium replacement strategy must combine an extensive range of counter-narcotics actions, including crop eradication and effective law enforcement, with alternative development options, support for former poppy farmers and openness to outside assistance. The GOB must foster closer cooperation with the ethnic groups involved in drug production and trafficking, especially the Wa, refuse to condone continued involvement by ceasefire groups in the narcotics trade, tackle corruption effectively, and enforce its counter-narcotics laws more consistently to reach its goals of eradicating all narcotics production and trafficking by 2014.

The USG believes that the GOB must further eliminate poppy cultivation and opium production; prosecute drug-related corruption, especially by corrupt government and military officials; take action against high-level drug traffickers and their organizations; strictly enforce its money-laundering legislation; and expand prevention and drug-treatment programs to reduce drug use and control the rapid spread of HIV/AIDS. The GOB must take effective new steps to address the explosion of ATS that has flooded the region by gaining closer support and cooperation from ethnic groups, especially the Wa, who facilitate the manufacture and distribution of ATS. The GOB must close production labs and prevent the illicit import of precursor chemicals needed to produce synthetic drugs. Finally, the GOB must stem the troubling growth of domestic demand for heroin and ATS.

VILLAROSA